

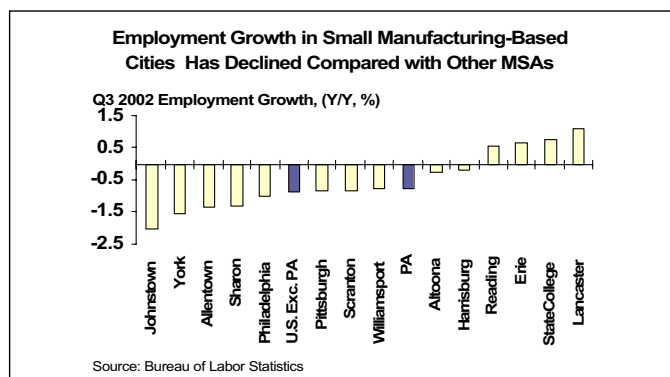
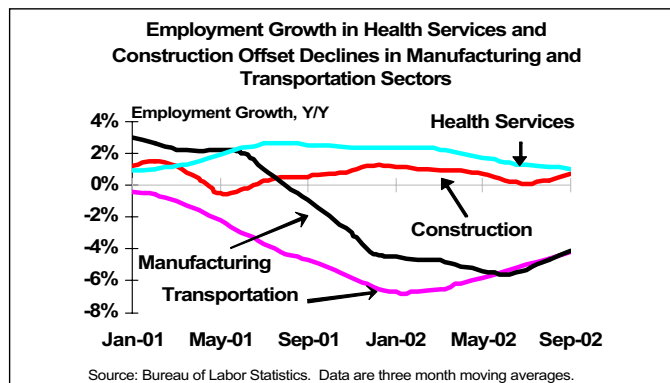
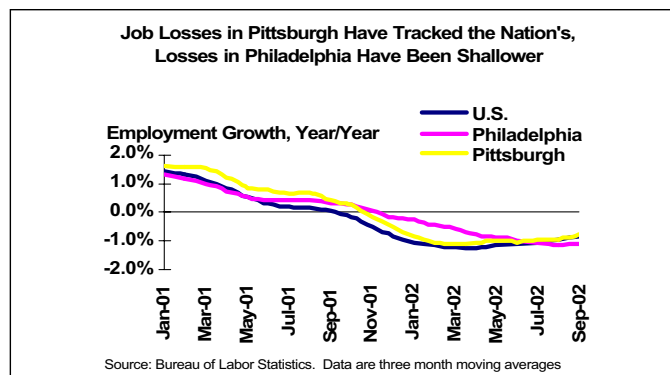
FDIC State Profile

WINTER 2002

Pennsylvania

Pennsylvania's labor market closely tracks the nation's, primarily because the Pittsburgh and Philadelphia MSAs have reduced dependence on the manufacturing sector.

- Pennsylvania's labor market, dominated by **Philadelphia** and **Pittsburgh**, continued to closely track the nation's through September 2002 (see **top chart**). Increased industrial diversity during this economic downturn compared with past recessions has benefited the state's economy.
- Weakness in the state's transportation, manufacturing and business services industries has been offset, in part, by job growth in the construction, healthcare and other service sectors (see **middle chart**).
- Exposure to the transportation industry weakened Pennsylvania's economy during this slowdown. The transportation industry, primarily the airline and trucking sub-sectors, is pro-cyclical and has been adversely affected by declining demand. Statewide, employment in air transportation fell more than 10 percent during third quarter 2002, an improvement over the 12 percent decline during the previous quarter. US Air, the nation's 6th largest carrier, filed for bankruptcy in August 2002 and has announced plans to lay off roughly 1,400 workers at the Pittsburgh, Philadelphia and Charlotte, N.C. hubs. Job cuts have also occurred in the Harrisburg trucking industry.
- Pennsylvania's reliance on the manufacturing sector has declined during the past two decades, but some of the state's smaller metropolitan areas, such as **Allentown**, **York** and **Johnstown**, continue to be characterized by higher employment concentrations in the manufacturing sector compared with the nation. Job losses have been greater in these areas than in other parts of the state during this downturn (see **bottom chart**). Higher labor costs relative to other parts of the country and lower levels of educational attainment are some of the factors that may have limited the number of non-manufacturing businesses moving to these areas.
- Office market conditions in Philadelphia and Pittsburgh weakened in 2002, similar to national trends. The office vacancy rate in Philadelphia, the nation's tenth largest office market, may be stabilizing after rising over the past two years. In third quarter 2002, the vacancy rate for the metropolitan area was 16.4 percent compared with 11.9 percent in the third quarter 2001. Vacancy rates were higher in Philadelphia's suburban markets (and exceeded peak



rates reached in the early 1990s) than downtown as a slight increase in office construction outpaced demand. The office vacancy rate also increased in the Pittsburgh metropolitan area, and was 16.8 percent in the third quarter, compared

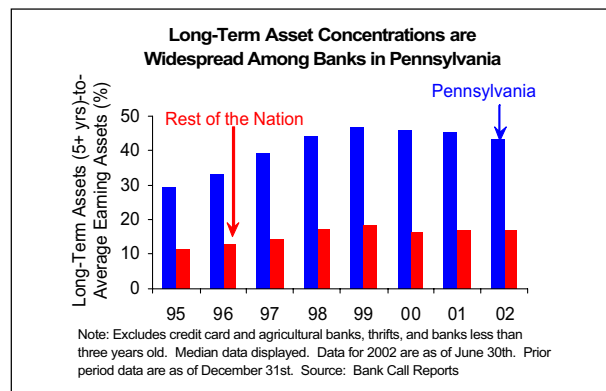
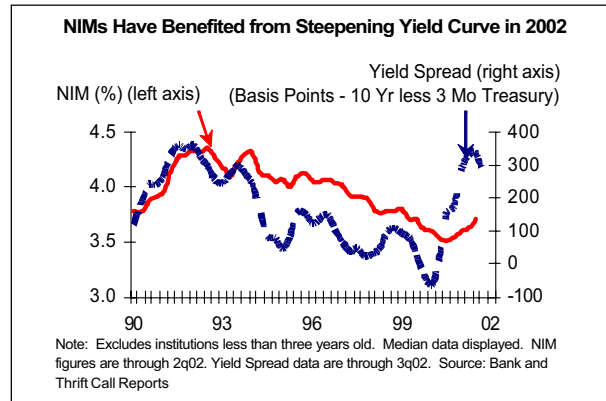
State Profile

with 16.1 percent for the nation. Similar to Philadelphia, vacancy rates generally were higher in

the suburbs, which reflected a modest amount of office completions and soft office space demand.

Widening net interest margins (NIMs) helped boost profitability for most of Pennsylvania's insured institutions during the past year, but margin compression may resume.¹

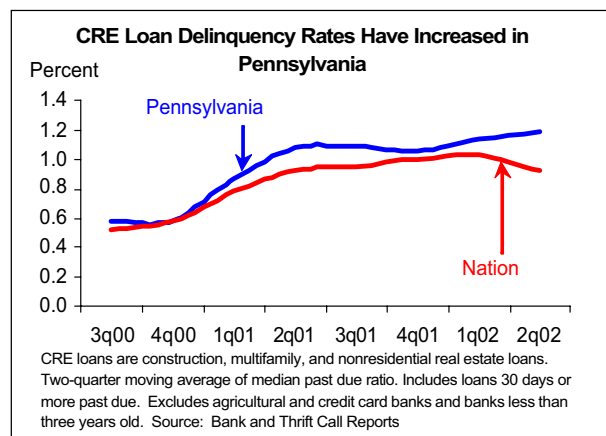
- The median NIM increased following steepening in the Treasury yield curve in 2001 and the first half of 2002 (see **top chart**). Significant reduction in short-term interest rates helped lower banks' funding costs and more than offset the decline in asset yields that reflected the decline in long-term interest rates. Two-thirds of the state's insured institutions reported widening of margins during the past year. Improvement was most widespread among residential lenders, reflecting higher concentrations of long-term assets.
- During third quarter 2002, however, the yield curve flattened as long-term interest rates neared historic lows and short-term interest rates stabilized — trends that could limit margin improvement in coming quarters.
- Low long-term interest rates have contributed to record refinancing levels nationally as consumers have locked in long-term, fixed-rate mortgage loans. Asset maturities have remained long while liability maturities have remained short.
- The median ratio of long-term assets-to-total assets among insured institutions headquartered in Pennsylvania remains well above that of the rest of the nation (see **middle chart**). A higher concentration of residential lenders in Pennsylvania (35 percent) compared with the rest of the nation (10 percent), and more widespread use of long-term mortgage



products in the Northeast compared with the rest of the nation, contributed to the higher ratio.

Credit quality among insured institutions headquartered in Pennsylvania has weakened modestly during this economic downturn. However, the state's median commercial real estate (CRE) loan delinquency rate has increased and now exceeds the nation's.

- The median past-due ratio for Pennsylvania's insured institutions remains lower than that of the nation across loan categories, except for CRE loans. The median past-due CRE loan ratio has increased and exceeds the national level (see **bottom chart**).
- Insured institution CRE delinquency rates have increased throughout much of the state, including those in the Pittsburgh and Philadelphia MSAs, the state's two largest markets. However, CRE loan exposure in these two markets is modest relative to the rest of the nation. Nevertheless, as credit quality typically lags the business cycle, CRE loan delinquency levels may continue to increase even as CRE markets begin to improve.



¹ Data are as of June 30, 2002, unless otherwise noted.

Pennsylvania at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	288	298	310	310	323
Total Assets (in thousands)	274,397,718	258,358,177	274,295,338	261,685,265	252,747,218
New Institutions (# <3 years)	14	19	16	13	7
New Institutions (# <9 years)	30	27	26	22	18
Capital					
Tier 1 Leverage (median)	8.97	9.21	9.41	9.40	9.65
Asset Quality					
Past-Due and Nonaccrual (median %)	1.53%	1.61%	1.41%	1.61%	1.83%
Past-Due and Nonaccrual ≥ 5%	20	21	21	20	25
ALLL/Total Loans (median %)	1.10%	1.05%	1.05%	1.06%	1.12%
ALLL/Noncurrent Loans (median multiple)	1.38	1.43	1.75	1.71	1.42
Net Loan Losses/Loans (aggregate)	0.41%	0.40%	0.22%	0.24%	0.36%
Earnings					
Unprofitable Institutions (#)	24	26	21	19	12
Percent Unprofitable	8.33%	8.72%	6.77%	6.13%	3.72%
Return on Assets (median %)	0.97	0.85	0.91	0.98	1.04
25th Percentile	0.60	0.56	0.63	0.70	0.75
Net Interest Margin (median %)	3.63%	3.51%	3.71%	3.74%	3.93%
Yield on Earning Assets (median)	6.58%	7.50%	7.59%	7.37%	7.72%
Cost of Funding Earning Assets (median)	2.97%	4.03%	3.92%	3.64%	3.86%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.09%	0.09%	0.11%
Noninterest Income to Avg. Assets (median)	0.45%	0.46%	0.43%	0.41%	0.39%
Overhead to Avg. Assets (median)	2.53%	2.56%	2.55%	2.56%	2.65%
Liquidity/Sensitivity					
Loans to Deposits (median %)	78.41%	80.47%	83.45%	77.32%	78.89%
Loans to Assets (median %)	62.62%	63.27%	65.60%	64.09%	64.19%
Brokered Deposits (# of Institutions)	34	28	31	21	31
Bro. Deps./Assets (median for above inst.)	2.09%	1.64%	2.57%	1.13%	0.95%
Noncore Funding to Assets (median)	17.33%	16.68%	17.00%	13.65%	11.53%
Core Funding to Assets (median)	70.74%	70.70%	71.31%	73.98%	75.59%
Bank Class					
State Nonmember	68	64	66	64	65
National	80	87	94	97	111
State Member	29	31	32	33	33
S&L	34	35	36	38	39
Savings Bank	27	31	32	30	29
Mutually Insured	50	50	50	48	46
MSA Distribution					
	# of Inst.	Assets	% Inst.	% Assets	
Philadelphia PA-NJ PMSA	83	50,934,297	28.82%	18.56%	
No MSA	68	26,757,745	23.61%	9.75%	
Pittsburgh PA	49	116,542,465	17.01%	42.47%	
Harrisburg-Lebanon-Carlisle PA	18	10,167,755	6.25%	3.71%	
Scranton—Wilkes-Barre—Hazelton PA	15	5,075,426	5.21%	1.85%	
Allentown-Bethlehem-Easton PA-NJ	15	5,482,445	5.21%	2.00%	
Lancaster PA	9	8,252,464	3.13%	3.01%	
Johnstown PA	8	2,222,696	2.78%	0.81%	
Reading City PA	5	41,587,351	1.74%	15.16%	
Williamsport PA	4	990,734	1.39%	0.36%	
Altoona PA	4	572,642	1.39%	0.21%	
York PA	3	1,032,186	1.04%	0.38%	
Sharon PA	3	4,030,970	1.04%	1.47%	
Erie PA	3	593,800	1.04%	0.22%	
State College PA	1	154,742	0.35%	0.06%	